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Statement of Rep. Henry A. Waxman, Ranking Minority Member
Committee on Government Reform
Subcommittee on National Security, Emerging Threats, and International Relations
Hearing on the Development Fund for Iraq: U.S. Management of Iraq Oil Proceeds and
Compliance with U.N. Security Council

June 21, 2005

Today, the Subcommittee is holding a hearing on the Development Fund for Iraq. This is an important — and overdue — hearing. U.S. mismanagement of the DFI is one of the biggest untold stories of the war in Iraq.

After U.S. forces invaded Iraq in 2003, the U.N. Security Council created the DFI to hold Iraq's oil revenues and other assets. And the Security Council gave U.S. officials the authority to use the DFI for the benefit of the Iraqi people.

Since then, U.S. officials have spent or disbursed over \$19 billion of Iraqi money in the DFI. Yet there has been virtually no congressional oversight — and little public understanding — of these enormous expenditures.

I want to begin my remarks by commending Chairman Shays for holding this hearing. Today's hearing is the first congressional hearing on the DFI and how U.S. officials managed — and mismanaged — the Iraqi assets in the fund. Chairman Shays has asked hard questions and approached today's hearing with an open mind and a spirit of bipartisanship.

The DFI is closely related to the Oil for Food Program. The DFI, which was run by the United States, is the successor to the Oil for Food Program, which was run by the United Nations. In fact, over \$8 billion in the Oil for Food Program was transferred into the DFI by the U.N. Security Council.

Yet there has been a stark — and telling — contrast between Congress' approach to the Oil for Food Program and the DFI. Five separate congressional committees have been investigating U.N. mismanagement of the Oil for Food Program, and more than a dozen hearings have been held. But before today, there was not a single hearing in Congress on U.S. mismanagement of the Development Fund for Iraq.

This neglect of the DFI has come at a steep cost to both congressional and public understanding of the actions of U.S. officials.

My staff has prepared a report that provides a comprehensive analysis of what is known about the DFI expenditures. The report is based on a review of over 14,000 pages of financial records subpoenaed from the Federal Reserve Bank; 15,000 pages of documents from the Defense Department; reports from multiple U.S. audit agencies; and interviews with international investigators, U.S. agency representatives, and Iraqi officials. I ask that this report be made part of the record.

What we found was an appalling level of incompetence, mismanagement, waste, fraud, and greed. As we will hear today from the Special Inspector General for Iraq Reconstruction, literally billions of dollars of Iraqi assets taken from the DFI cannot be accounted for.

The story of the DFI begins at the Federal Reserve Bank in New York, where the Iraqi assets were held on deposit. As the Federal Reserve documents show, cash withdrawals on a previously unimaginable scale were ordered by U.S. officials in Iraq.

In total, nearly \$12 billion in cash was withdrawn from the DFI account at the Federal Reserve — the largest cash withdrawals in history. The Administration transferred from New York to Baghdad more than 281 million individual currency notes on 484 pallets weighing a total of 363 tons. This included more than 107 million \$100 bills.

I'd like to show the Committee a picture. These are what Federal Reserve officials call "cashpaks." Each one contains 16,000 bills. One cashpak with \$100 bills is worth \$1.6 million. The Federal Reserve shipped more than 19,000 of these cashpaks to Iraq.

In late June 2004 — in the last week of its existence — the U.S.-run Coalition Provisional Authority ordered the urgent delivery of more than \$4 billion, including the largest one-day transfer in the history of the Federal Reserve — a single shipment of \$2.4 billion in cash.

With so much cash arriving in Iraq, you might think that extensive precautions would be taken to account for the funds. But exactly the opposite happened: U.S. officials used virtually no financial controls to safeguard the Iraqi funds. No certified public accounting firm was hired to monitor disbursements, and auditors found that U.S. officials could not account for billions of dollars.

One former CPA official told us that Iraq was awash in \$100 bills. One contractor received a \$2 million cash payment in a duffel bag ... other cash payments were made from the back of a pickup truck ... and cash was stored in unguarded sacks in Iraqi ministry offices.

The records are so lacking that it's impossible to know the full extent of the waste, fraud, and abuse that occurred during the period of U.S. control. But what we do know is alarming.

The largest single recipient of DFI funds was Halliburton. The company vastly overcharged to import gasoline into Iraq and to provide other oil-related services. These overcharges — which exceed \$200 million — were billed to U.S. Army Corps of Engineers. But U.S. officials arranged for over 80% of them to be paid out of the DFI.

And here's the most incredible part: When the U.N. auditors charged with overseeing the DFI asked about the overcharges, U.S. officials concealed them.

In fact, if it were not for my efforts to disclose these overcharges — and those of Chairman Shays — U.N. auditors would still be misled.

Another politically connected firm, Custer Battles, received over \$11 million in Iraqi funds, including over \$4 million in cash. But the company's overcharges were so blatant that it is now barred from receiving federal contracts and is facing a False Claims Act lawsuit for fraudulent billings.

Over \$600 million in Iraqi funds were given to military commanders and other U.S. officials to fund local reconstruction projects. Yet here's what a partial audit of \$120 million in expenditures disclosed: more than 80% of funds could not be properly accounted for, and over \$7 million in cash was simply missing.

One of the biggest problems that we will hear about today is what happened when U.S. officials gave over \$8 billion in cash to Iraqi ministries that lacked internal and financial controls. As an audit by the Special Inspector General found, we simply can't account for billions of these dollars. In many instances, the records indicate that these funds may have been paid to "ghost employees" who never existed.

Today's hearing is the first in Congress on the DFI, but it shouldn't be the last. We know a lot went wrong, but we don't know who is responsible, who squandered the money, and who should be held accountable. There is an urgent need for more investigation. And I hope this Committee will play a major role.

I look forward to today's hearing.